

January 12, 2015

## Natural Gas Trends

### Highlights

#### US rig count drops by 87; biggest dip since 2008

The US has just seen the biggest fourth-quarter drop in its land rig count since the economic recession of late 2008, and it will likely be months before a bottom is found, analysts say. The domestic rig count was down by 87 land rigs from early October to year-end 2014, according to Baker Hughes data. That is the biggest drop in a fourth-quarter rig count the oil service company has shown since a 273-rig decline in late 2008, after a global economic meltdown led to frantic activity pullbacks.

The fourth quarter normally experiences a drop in drilling activity around mid-November until year-end as the holiday season approaches. October 2014 began with 1,869 rigs toiling in US oil and gas fields, which fell to 1,782 by year-end, down 4.6%, the data show. But in light of oil prices that have plunged more than 50% since June's peak of over \$107/barrel, it wasn't easy in recent weeks to separate what was traceable to normal holiday lulls from a widely expected oil price-related decrease in drilling. Analysts say that should shake out by mid-January.

"If the rig count continues to drop through January, that will tell you the [activity] pullback is in full swing," Bob Williams, director of news and analysts for RigData, which tracks drilling and permitting information, said. Williams said the rig count typically drops by 4% on average over the Christmas holiday and bounces back in January. However, in the last two weeks of December 2014, RigData – which counts rigs differently than Baker Hughes – shows the land rig count dropped by 140 or 8%.

#### 'Heading into a downturn'

While Williams stopped short of calling that drop in rig count a trend foreshadowing 2015, "it doesn't change the fact we're heading into a downturn," he said. "A lot of this has everything to do with [whether] you expect oil prices will bounce back by midyear. It really comes down to that."

While oil plays such as the Eagle Ford Shale and the Cana Woodford in Oklahoma have held up relatively well, others are seeing dwindling activity. The Granite Wash, which spans southwest Oklahoma and the Texas Panhandle, saw its rig count of 66 in early October drop to 52 by year-end.

The oily Williston Basin began the fourth quarter with a rig count of 198, only to nosedive nearly 10% by year-end. Even the stalwart Permian Basin tumbled from 556 to 536 during the same period, down 4%.

While the number of oil rigs has fallen steeply from its October peak of just over 1,600, gas rigs have fared better: the gas rig count actually gained rigs in the fourth quarter, moving to 340 at year-end from about 330 in early October, Baker Hughes data show. But it didn't stay put, and the gas rig count fell by 12 last week to 328.

For example, the gas count in the Cana Woodford actually rose in Q4, moving to six from zero in early October. And while oil rigs in Granite Wash dropped, gas-directed rigs moved to 24 by year-end from 21 at the start of Q4.

Steven Wood, managing director of corporate finance for Moody's, said if oil prices average \$75/b this year, North American operators would likely peg capex reductions around 20% compared to 2014, an assumption widely shared by Wall Street. At an average \$60/b price, spending could be cut by 30%-40%, Wood said, while outside North America, spending cuts of 10%-20% are expected.

The key question facing this down cycle "is not magnitude but duration," Global Hunter Securities analyst Mark Brown said in a Wednesday investor report.

Source: Platts Gas Daily

### Data

- February 2015 Natural Gas Futures Contract (as of January 9), NYMEX at Henry Hub closed at \$2.946 per million British thermal units (MMBtu)
- February 2015 Light, Sweet Crude Oil Futures Contract WTI (as of January 9), closed at \$48.36 per U.S. oil barrel (Bbl.) or approximately \$8.34 per MMBtu

#### Last week: Texas colder than normal

For the week beginning 1/4/15 and ending 1/10/15, heating degree days (HDD) were higher than normal (colder) for the week but lower than normal (warmer) and for the year to date for most Texas cities shown.

Source: [www.cpc.ncep.noaa.gov](http://www.cpc.ncep.noaa.gov)

HEATING DEGREE DAYS (HDD)				
City or Region	Total HDD for week ending 1/10/15	*Week HDD + / - from normal	Year-to-date total HDD	* YTD % +/- from normal
Amarillo	232	22	1921	-7%
Austin	185	75	952	19%
DFW	215	66	1166	1%
El Paso	168	21	1099	-17%
Houston	152	54	709	-3%
SAT	159	54	723	-6%
Texas**	185	61	1000	3%
U.S.**	238	30	1042	-28%

\* A minus (-) value is warmer than normal; a plus (+) value is cooler than normal. NOAA uses 65° Fahrenheit as the 'normal' basis from which HDDs are calculated. \*\* State and U.S. degree days are population-weighted by NOAA.

-999 = Normal Less Than 100 or Ratio Incalculable

#### Last week: U.S. natural gas storage at 3,089 Bcf

For the week ending 1/02/2015 working gas in storage decreased from 3,220 Bcf to 3,089 Bcf. This represents a decrease of 131 Bcf from the previous week. Stocks were 250 Bcf higher than last year at this time and 67 Bcf below the 5 year average of 3,415 Bcf.

Source: <http://ir.eia.gov/ngs/ngs.html>

U.S. WORKING GAS IN STORAGE				
Region	Week ending 1/02/15	Prior week	One-week change	Current Δ from 5-YR Average (%)
East	1,595	1,660	-65	-2.2%
West	428	461	-33	-1.6%
Producing	1,066	1,099	-33	-2.2%
Lower 48 Total	3,089	3,220	-131	-2.1%

Lower 48 states, underground storage, units in billion cubic feet (Bcf)

January 12, 2015

# more **Natural Gas Trends**

## Last week: U.S. gas rig count up for the week

The gas rig count for the U.S. was up one for the week and down 28 when compared to twelve months ago. The total rig count for the U.S. was down 61 from last week and down four when compared to twelve months ago. The total rig count includes both oil and natural gas rotary rigs.

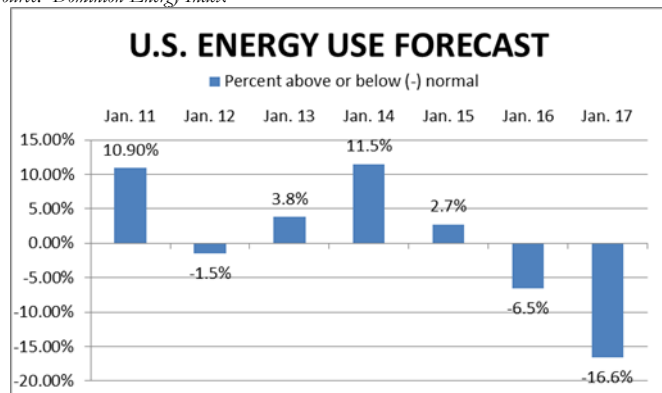
Source: Baker Hughes

BAKER HUGHES ROTARY RIG COUNT				
	As of 1/09/2015	+/- prior week	Year ago	+/- year ago
Texas	810	-30	825	-15
U.S. gas	329	1	357	-28
U.S. oil	1421	-61	1393	28
U.S. total	1750	-61	1754	-4
Canada	366	158	477	-111

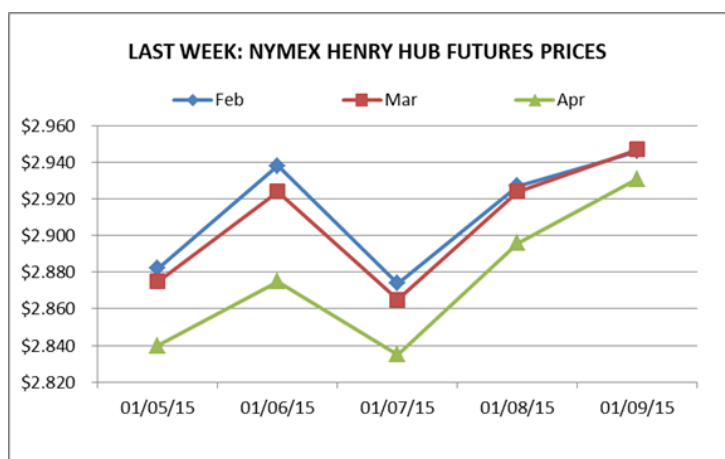
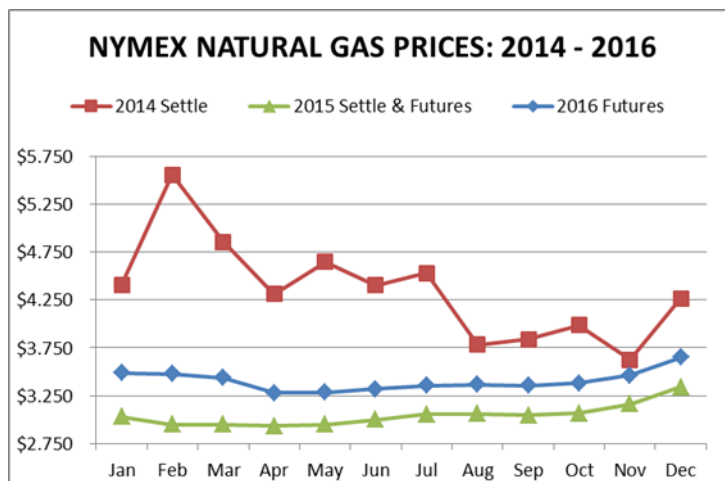
## This week: U.S. energy use varies

U.S. energy use is predicted to vary this week, according to the Dominion Energy Index, as shown below. Dominion forecasts total U.S. residential energy usage, a component of which is natural gas.

Source: Dominion Energy Index



2015 prices. Natural gas prices for 2015, shown below in green, are the NYMEX settlement prices for Jan. and futures prices for the remainder of the year.



## NATURAL GAS PRICE SUMMARY AS OF 1/9/2015

	This Week	+/- Last Week	+/- Last Year	12-Month Strip Avg.
US Feb. futures				
NYMEX	\$2.946	-\$0.057	-\$1.909	\$3.044